Comments of the M-S-R Public Power Agency
Regarding Bonneville Power Administration's
Third Party Reserves Acquisition Strategies
And
Southern Intertie Value Discussions

The M-S-R Public Power Agency ("M-S-R") is a joint powers agency formed by the Modesto Irrigation District, and the Cities of Santa Clara and Redding, California, each of which is a consumer owned utility. Beginning with a 2005 contract, M-S-R obtained contractual rights to the output from some of the first large scale wind resources developed in Washington State. M-S-R and its members currently have rights to 350 MW of wind generation in Washington and Oregon, which its members use to serve their customers and meet California's Renewable Portfolio Standards ("RPS"). Those customers ultimately bear the cost of the Bonneville Power Administration ("BPA") transmission rates.

M-S-R appreciates the opportunity to provide comments on issues raised in recent BPA workshops in advance of the BP-16 rate proceeding. M-S-R's comments address the issues discussed in the October 17th workshop on acquiring reserves from third parties under the Gen Inputs settlement, and M-S-R addresses the southern intertie value discussions.

Gen Inputs – Third Party Reserves

As a party that stands to lose valuable renewable energy products when reserves fall short, M-S-R generally supports efforts that will allow greater access to third party reserves, particularly in the spring months when the Federal system has been unable to meet demand, and liquidity problems have been identified with the short term market for third party reserves. M-S-R understands the proposed timeline for acquisition is designed to procure 200 MWs for the April-June months before March, with some acquired in the fall and some acquired in late winter. M-S-R sees the proposal as an improvement over acquisition in the short-term, preschedule time frame. M-S-R understands that some of the changes may be tested in 2015, but the key components will be addressed in the BP-16 rate period.

The October 17th workshop provided greater detail on transmission issues that inhibit BPA's acquisition of reserves from third parties on a forward basis. M-S-R understands that BPA is considering two changes to its policies to allow for more competition and liquidity in the market for third party reserves. First, BPA discussed a change in its policy, which currently prohibits parties with existing transmission rights from redirecting service requests to enable the delivery of reserves. Second, BPA discussed acquiring reserves before competitions have concluded, leaving a risk that the reserves will not be deliverable due to preemption in competitions. M-S-R supports exploring both of these options further to determine whether the changes will increase liquidity without creating unintended consequences, such as reduced reliability. M-S-R appreciates BPA's indication that it will continue to explore the third party acquisition issues in an open forum, and looks forward to additional discussions.

Southern Intertie Discussions

M-S-R remains concerned that the existing studies have not clearly identified all potential causes of the perceived value shift, and some of the solutions may have unintended consequences. M-S-R understands that the essential value shift described by Powerex is increased California Independent System Operator ("CAISO") congestion and grid management charges absorb more of the pricing spread between the CAISO and BPA. Although less clear, M-S-R understands the second issue raised by Powerex to be a perceived erosion of priority of firm transmission schedules on BPA as a result of the CAISO's acceptance of energy schedules without regard to the firmness of transmission leading to the intertie point(s).

M-S-R understands BPA will not adopt any rate or non-rate solutions without fully exploring the issues, and potential consequences, including market power and transmission hoarding opportunities. M-S-R suggests that further exploration of the causes should include the CAISO's Integrated Balancing Authority Area ("IBAA") tariff provisions. The IBAA was approved in 2008, around the same time as CAISO's implementation of the Market Redesign and Technology Upgrade ("MRTU"). The IBAA could be increasing congestion by enticing schedules from the Northwest into the CAISO to use only two of the three lines that make up the California Oregon Intertie ("COI"). The IBAA essentially reduces the value of one of the COI lines, the California Oregon Transmission Project ("COTP"), as a path for imports into the CAISO by pricing the congestion element of such imports as though they occur at the north end of the COTP (Captain Jack), instead of pricing the imports where they enter the CAISO market, at the south end of the COTP (Tracy). IBAA likely causes a shift of CAISO import schedules that would use the COTP to instead use the other two lines that make up the COI – the Pacific AC Intertie ("PACI"). Energy schedules are likely shifted away from the COTP and to the PACI, which is part of the CAISO, because PACI schedules achieve roughly the same congestion price as using the COTP, without incurring charges for use of the COTP. That is, the IBAA may have increased congestion by enticing more schedules to use two lines instead of using all three lines of the COI. If the value degradation identified by Powerex results from congestion charges, then the IBAA may be part of the cause of the value change. In addition to exploring the IBAA as one of the potential causes of the perceived value shift, M-S-R suggests that any marketing solutions being considered may benefit from further exploration as to whether there is transfer capability available on the COTP to deliver BPA energy sales that do not sink in the CAISO.

M-S-R encourages BPA to hold sufficient workshops to allow the region to understand the issues and potential options before specific recommendations are presented. Given the potential significance of this issue, it is important that the issues and causes be fully explored and all potential solutions be fully vetted.